

Lecture 1

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Audit: a professional service that involves an objective and critical examination of a subject matter with the aim of assessing its credibility, in order to provide assurance through the issue of an objective opinion

Assurance: the auditor's ability to provide a degree of satisfaction regarding the reliability of the information provided. The degree of satisfaction achieved is determined by the nature and extent of procedures performed by the auditor, the results of the procedures and the objectivity of the evidence obtained.

Value from auditing and assurance services:

- Facilitates information user confidence
- Promote public interest
- Meets regulatory obligation
- Feature of corporate governance

Demand for audit:

- Agency theory: principals (shareholders) engage Agents (company management) to use the resources of the organization in the most appropriate way
- Information hypothesis: audit of financial statements therefore leads to better information and thus better able to make decisions
- Insurance hypothesis: shift responsibility to the auditor --- effect of limiting the risk

Audit expectation gap:

An audit is NOT

- A guarantee (cannot be 100%)
- Proof that the company is 'good' or a 'good' investment (merely provide confidence in information)
- There to 'fix' errors
- There to 'find fraud' (merely look for misstatement. Auditors don't care if it's prepared by error or intentionally)

Recent history:

- Earnings management
- Corporate governance failure
- Fraud
- Auditor role failure

Australia: Corporate Law Economic Reform Program (CLERP 9) 2004

- Additional disclosures in the directors' report
- General and specific auditor independence requirements
- Restrictions on auditors being employed by an audit client
- Auditor rotation for listed companies

United States: Sarbanes-Oxley Act 2002

- Created the Public Company Accounting Oversight Board (PCAOB)
- Provisions regarding auditor independence, corporate governance, internal control assessment, conflicts of interest, and enhanced financial disclosure

The Financial Reporting Council (FRC)

- Oversees the setting of accounting and auditing standards in Australia
- Responsible for oversight of the AUASB and for approving its strategic direction
- Responsible for oversight of the AASB and for approving its strategic direction

Auditing and Assurance Standards Board (AUASB)

- The role of the AUASB includes the development of Australian Auditing Standards (ASAs) that have a clear public interest focus and are of highest quality
- Objective is to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services
- AUASB uses, as appropriate, ISAs of the IAASB as a base